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INFO RUEHGZ/AMCONSUL GUANGZHOU PRIORITY 9071
RUESLE/AMCONSUL SHANGHAI PRIORITY 8465
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C O N F I D E N T I A L AIT TAIPEI 000774

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E.O. 12958: DECL: 03/08/2031
TAGS: [ECON](#) [IO](#) [PREL](#) [TW](#)
SUBJECT: AN ECONOMIC VIEW OF TAIWAN'S FUTURE, U.S. INTERESTS

Classified By: AIT Acting Director David Keegan,
Reasons: 1.4 (b/d)

11. (SBU) Summary: Taiwan Minister-without-portfolio Ho Mei-yueh emphasized that Taiwan considers a Free Trade Agreement (FTA) with the United States to be its top economic and political priority in a February 23 meeting with the AIT Acting Director. Ho also briefly discussed Taiwan's new cabinet and investment in China. A thought-piece on the strategic outlook behind Ho's remarks will follow septel. End summary.

12. (SBU) During a February 23 courtesy call, Acting AIT Director asked former Minister of Economic Affairs and now Minister-without-portfolio Ho Mei-yueh what she considered to be her top priority in her new position. Without hesitation, Ho identified an FTA with the United States as her government's top priority. She then launched into a detailed presentation on the benefits of an FTA for both Taiwan and the United States, strategies for promoting an FTA, and issues that need to be resolved prior to an FTA.

U.S. Line of Strategic Defense Will Be Broken

13. (SBU) Minister Ho said she believed that a bilateral FTA would greatly benefit not only Taiwan but also the United States in terms of both economic and strategic interests. She said that without an FTA with the United States, Taiwan will have no option but to increase its already considerable economic integration with China, which would inevitably lead to a situation wherein Taiwan loses its ability to take independent economic or political action. She argued that if Taiwan loses its ability to resist China's economic pressure this would render moot any military defense. Without an FTA with the United States, she claimed, Taiwan will be forced by economics to tilt towards China, breaking the U.S. strategic defense line in the Far East, which goes through Japan, South Korea, Taiwan, and the Philippines. Minister Ho's arguments were overwhelmingly geo-strategic rather than economic. Like many high-ranking officials in the Chen Administration, she made no bones that she views China as a hostile country that intends to establish its hegemony in East Asia to the detriment of Japan (which many in Chen's government greatly admire) and other traditional U.S. allies in the region.

Why Taiwan Should Come Before Korea

¶4. (SBU) Minister Ho said that Taiwan was very concerned about the damage to Taiwan industries that might result if the United States signed an FTA with South Korea, but not Taiwan. Taiwan, she said, would lose much of the U.S. market for high-tech products where Taiwan and South Korea are keen rivals. As an example, she noted that the U.S. now charges 7.5% import duty on LCD display screens, and that elimination of this duty through an FTA would hand this competitive sector to South Korea.

¶5. (SBU) The United States would benefit more from an FTA with Taiwan than an FTA with South Korea, Ho claimed. Taiwan is one of the largest buyers of U.S. agricultural products, and could be buying even more, whereas an FTA with South Korea would lead to keen competition from South Korean business firms in automobiles, and iron and steel.

¶6. (SBU) While an FTA with China is not in the interest of the United States, Ho maintained, an FTA with Taiwan would help prevent Taiwan's economic marginalization. Despite extensive industrial relocation to China, Taiwan still produces a number of high-tech products important to the United States, and is a leader in some textile and chemical technologies. Without an FTA between the United States and Taiwan, these strategic industries will inevitably migrate to other countries, probably China, Ho claimed, thereby making the United States less secure and making Taiwan less prosperous.

How Taiwan Pushes Its Policies

¶7. (SBU) Ho said that Taiwan has made great efforts to lobby officials in the United States, including state legislators. Ho said that over half of the U.S. state legislatures have passed resolutions to support a U.S. FTA with Taiwan.

¶8. (SBU) The AIT Acting Director noted that U.S. business firms play a far greater role in FTA decisions than do states. In response to Ho's expressed fear that such firms would remain silent to prevent PRC retaliation, he observed that U.S. firms likely have a variety of ways to communicate this message through non-public channels.

Issues to be Resolved

¶9. (SBU) Ho identified four trade issues that she believes Taiwan needs to be resolved before an FTA between the United States and Taiwan can be considered: IPR, rice, pharmaceuticals, and U.S. beef. She expressed optimism that differences on these issues could be resolved. She claimed that Taiwan has made significant improvement in IPR protection over the past three years, and noted that Taiwan has re-opened to imports of U.S. beef. According to Ho, Taiwan's criteria for accepting U.S. beef were not as strict as Japan's. Japan would only accept meat from cows younger than 20 months, while Taiwan allows meat from cattle up to 30 months. Ho said the re-opening to U.S. beef imports came in spite of heavy criticism from legislators. She said that Chen Lu-hung had recently retired as Director General of the Department of Health Food Sanitation Bureau as a result of the criticism of re-opening U.S. beef imports.

¶10. (C) Note: Chen had told AIT prior to his retirement at the end of December that the political flap over beef did not push him to retire and he emphasized that his retirement would not change the Department of Health's rigorous, science-based approach to regulating food imports. End Note.

¶11. (SBU) Ho believes the rice issue is almost resolved. Taiwan has accepted U.S. requests on rice quota allocations. Ho anticipated heavy political pressure on rice may again lead to the resignation of a senior agriculture official.

¶12. (SBU) On pharmaceuticals, Minister Ho thought that

co-payment by patients for innovative pharmaceuticals might be a possible solution to differences on pricing and the use of generic drugs. She suggested that patients could pay the difference between name-brand drugs and generic ones. Ho said she will promote an amendment to the law making this possible.

Taiwan Cabinet

¶13. (SBU) During the meeting, Ho also discussed briefly the functioning of Taiwan's Executive Yuan (EY, composed of the Premier, Vice Premier, Secretary General, and 15 ministers). Eight of the 15 EY ministers are in charge of ministries, and the remaining seven are ministers without portfolio. All of the cabinet members and heads of councils, commissions, and administrations attend cabinet meetings. One of the main duties of ministers without portfolio is to coordinate all relevant ministerial agencies on issues assigned to them by the Premier or Vice Premier. She has been assigned issues coming from the Ministry of Economic Affairs, the Council of Agriculture, the Fair Trade Commission, and the Consumer Protection Commission.

Investment in China

¶14. (SBU) Minister Ho mentioned that she had read of U.S. officials citing extremely high figures of Taiwan investment in China. She said that Taiwan's investment in China is US\$45 billion according to Taiwan data. She believed that the actual figure should be about US\$70-100 billion; the difference mainly reflects reinvestment of earnings by Taiwan companies. She noted Taiwan's law does not require registration of such reinvestment.

Comment:

¶15. (C) Ho's polished hour-long presentation on the merits of an FTA with the United States clearly reflected a deep familiarity with the subject. Ho has a well-deserved reputation for doing her homework. She is unusual among high-level DPP officials in being a career government employee who worked her way up through the ranks. She has a range of contacts and in-depth knowledge of Taiwan's government that most Chen Administration appointees lack. Her husband works for a Japanese company in China, a factor viewed with suspicion by some political factions. Her comments in this meeting track very closely with those of Vice Premier Tsai Ing-wen during the Acting Director's call on her in late February. We can expect that other Taiwan officials will draw on these same themes and points in pressing their case for a bilateral FTA with U.S. officials.

KEEGAN